

IRS TAX TIP 2002-65

WHAT TO DO IF YOU CAN'T PAY YOUR TAXES

If this year's tax filing deadline will be a "pay" day for you and you cannot pay the full amount that you owe, you should still file your return by the due date and pay as much as you can. The IRS may allow you to pay any remaining balance over time in monthly installments through an Installment Agreement or possibly even settle for less than the full amount owed through its Offer in Compromise program.

If you find that you cannot pay the full amount by the filing deadline, you should file your return and pay as much as you can by the due date. To see if you qualify for an installment payment plan, attach a Form 9465, "Installment Agreement Request," to the front of your tax return. The IRS has streamlined the approval process if the amount owed is not more than \$25,000 and can be paid off within a five-year period. Be sure to show the amount of your proposed monthly payment and the date you wish to make your payment each month.

The IRS charges a \$43 fee for setting up an installment agreement and you will also be required to pay interest plus a late payment penalty on the unpaid balance. This penalty, usually 0.5 percent of the balance due per month, drops to a 0.25 percent rate when the IRS approves the installment agreement if your return was filed on time and you did not receive a levy notice from the IRS.

Besides possibly qualifying for the reduced late payment penalty, you have another reason for filing your return by the due date — you avoid the late filing penalty, 5 percent per month of the balance due. Paying as much as you can when you file your return will reduce interest and penalty charges.

If you find that you cannot possibly come up with the money to pay your taxes, even through an installment plan, you may apply for an "offer in compromise" to settle your tax debt for less than the full amount owed. The IRS will review your financial situation and future income potential to determine whether your offer is appropriate. Send Form 656, "Offer in Compromise," and Form 433A, "Collection Information Statement," to the IRS to determine your eligibility.

The IRS Web site at www.irs.gov has interactive sections to help you determine your eligibility for an installment plan or an offer in compromise. You can also download all the necessary forms from that site. The forms are also available by calling toll free 1-800-TAX-FORM (1-800-829-3676).

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